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## Brazil

## Retail Food Sector

## 2008

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**Report Highlights:**

The retail sector is the major channel for food and beverage distribution in Brazil, and is considered the most accessible market entry point for US exporters. The primary goal of this report is to inform US companies how this industry operates, who the major players are and how they have performed during the past year.

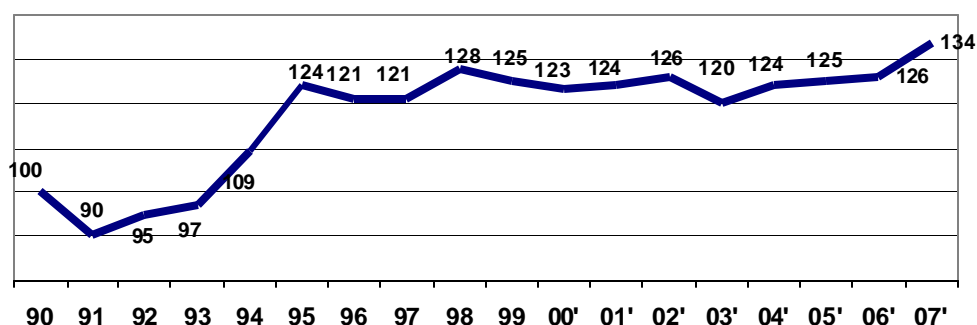
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Sao Paulo ATO [BR3]  
[BR]

## SECTION I. Market Summary

According to the Brazilian Supermarket Association (ABRAS), in 2007, retail sector revenues totaled R\$136.3 billion (U\$69.9 billion applying the 2007 average exchange rate of R\$1=US\$1.95). Compared to 2006 the industry registered an increase of 6 percent in real terms and 9.8 percent in nominal terms - this outcome represents the best result in the last 10 years. In 2007, the retail growth rate was greater than the GDP growth rate of 5.4 percent. Retailing contributes 5.2 percent to the country's GDP of R\$2.6 trillion.

**RETAIL SECTOR GROSS SALES INDEX**



Source: ABRAS

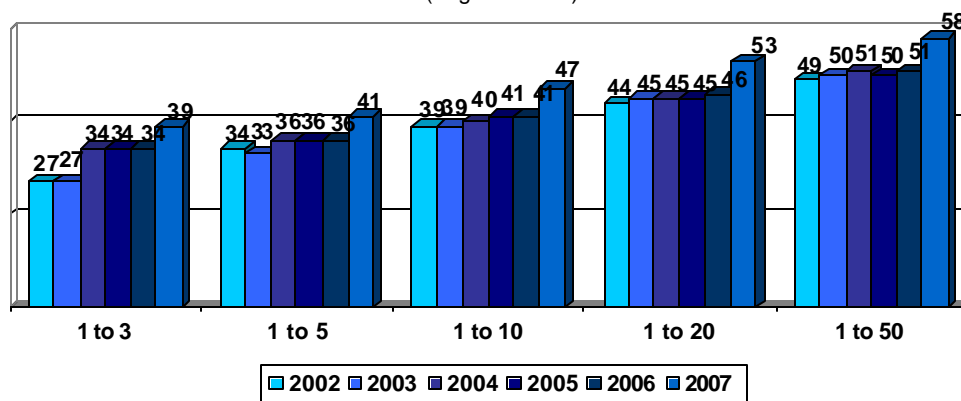
Retail physical capacity also grew in 2007. The overall number of check-outs increased 3 percent, from 175,600 in 2006 to 180,900 in 2007. Employment also grew, increasing by 3.6 percent. While in 2006 the sector had 838,000 employees, in 2007 this number went up to 868,000. In number of stores, the sector increased 1.2 percent, from 73,700 to 74,600 in 2007. The only decline observed was in area occupied. In 2006, the total area in use was 18.88 million square meters, in 2007 this area shrank 0.5 percent, to 18.78 million square meters. According to ABRAS the reason for this reduction is the emphasis that large retailers are placing on smaller stores formats and the contraction of traditional stores. Various factors contributed to these results; chief among them were higher incomes, price adjustments, and increased investment.

- Higher incomes: According to retail analysts, Brazilian retailers benefited from expanded credit availability, real income gains, and the declining unemployment rate, which brought more Brazilians into the market.
- Rising food prices: While in 2006 and previous years the industry experienced increases in sales volume that surpassed sales-value increases, in 2007 this trend was reversed.
- Investments: Investments in acquisitions played an important role. For instance, in 2007 acquired wholesale chains were incorporated into the retail accountability.

Acquisitions and the entry of companies not previously classified as "retailers" has changed the concentration outlook. Although Brazil does not have a high degree of retail concentration, it is not considered a dispersed market either. In 2007 the top 50 retail companies were responsible for 58 percent of total sales, 7 points above the previous year. The leading 3 retail chains, Carrefour, Pao de Acucar and Wal Mart, increased share 5 points in 2007, together they held 39 percent of market share. Similar performance is noted when grouping the top 5 and top 10 retailers. The top five gained 5 points in 2007 and went from 36 percent to 41 percent, while the top 10 rose 6 points, reaching 47 percent of total revenues. On the other hand, ABRAS pointed out that this trend is not limited to large

companies. Small and medium retailers have also expanded market share, which leads to accentuated competition on regional level.

**CONCENTRATION TREND IN THE BRAZILIAN RETAIL SECTOR**  
(% gross sales)



Source: ABRAS

Note: the horizontal axis represents the top retailers on sales value.

According to a research conducted by ABRAS in 2007, 277 retail companies announced investments totaling R\$2.6 billion. Investments on physical capacity have been increasing in the past years and continue to grow. In 2007 resources applied to expand, rebuild and improve operations were 40 percent higher than the previous year.

Brazilian stores may be divided into 5 categories: category 1 (up to 250 square meters); category 2 (from 251 to 1,000 square meters); category 3 (from 1,001 to 2,500 square meters); category 4 (from 2,501 to 5,000 square meters); and, category 5 (above 5,000 square meters). In the past few years the market saw consistent growth of stores with less than 250 square meters. However, in 2007 this scenario changed. Stores with less than 250 square meters lost share, in 2006 this format responded for 45.3 percent of total stores, in 2007 its share went down to 37.2 percent. Meanwhile, all other formats gained ground. Neighborhood stores (category 2) benefited the most, gaining 5.7 points of market share and expanding from 25.9 to 31.6 percent of market share. Category 3, 4 and 5 also had positive results, but each group increased less than 1 point in market share.

On average, the top 300 retailers are increasing the size of their stores. In 2006 the average store reached 1,243 square meters. In 2007 this area went up to 1,332 in 2007. However, when analyzing the performance of the top 20 supermarket chains and then the subsequent 280, two movements are detected. Large retailers are decreasing the size of their average store and small/medium supermarkets are increasing store size. Comparing the 2007 results to the previous years, the top 20 retailers decreased the average size from 2,613 square meters to 2,590 square meters. The other 280 retailers went in the opposite direction; the group increased its average size from 484 square meters in 2006 to 521 square meters in 2007.

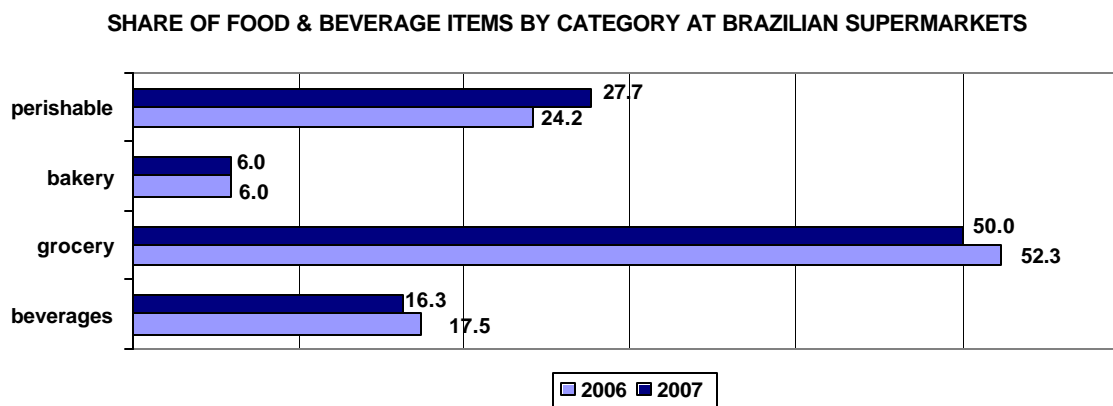
#### RETAIL PROFILE BY STORE SIZE

SALES AREA	N° STORES		AVERAGE N° of CHECK-OUTS		AVERAGE N° of ITEMS		SHARE OF FOOD ITEMS (%)	
	2006	2007	2006	2007	2006	2007	2006	2007
up to 250m <sup>2</sup>	2,105	1,801	3	22	5,086	5,963	91.8	86.8
251 to 1,000 m <sup>2</sup>	1,204	1,530	6	27	9,650	10,266	88.7	88.4
1,001 to 2,500 m <sup>2</sup>	894	960	12	59	14,091	15,457	85.2	83.9

2,501 to 5,000 m <sup>2</sup>	242	278	22	91	21,070	20,165	75.5	75.6
above 5,000 m <sup>2</sup>	204	266	49	588	43,813	44,303	58.1	66.3

Source: ABRAS

Observing the store profiles, on average, food products reach 80 percent of total sales. When breaking down sales of food items, ABRAS presents the following picture:



Source: ABRAS

Retailers highlight increasing demand for perishable products, reflecting the shift towards healthier consumption patterns. The Brazilian Food Processors' Association (ABIA) indicates that demand for healthier and functional products has risen consistently. Although, multinational companies are the major processors of functional products, industry analysts indicate that Brazilian companies are investing to gain market share in this segment.

The presence of imported food and beverage products has also increased. As the Real appreciated against the Dollar, the offer of foreign products increased. While in 2006 imported items represented 3.1 percent of total revenues, in 2007 they reached 4.8 percent. Private labels also increased their share in 2007, achieving 7 percent of total sales. In 2006, their share was 5.5 percent, compared to 4.7 percent the previous year.

Given this outlook, it becomes clear that the supermarket sector is an important distribution channel in Brazil and producers who wish to access it should be aware of major challenges and advantages:

ADVANTAGES	CHALLENGES
More supermarkets are showing interest in selling imported goods.	Brazil is self-sufficient in food supply. An imported product is a luxury item and not a necessity. Retailers offer foreign goods to differentiate themselves and develop new niche markets. Therefore, US exporters may start selling small volumes and also be asked for a wider variety of products.

Price is not always the determinant purchase criteria for high-end consumers.	High-end consumers are more demanding regarding other aspects of products such as innovation, packaging, status, new trends, etc.
To differentiate importers must offer a portfolio of imported products. Due to economic slow down importer will be searching for alternatives in order to decrease costs, which benefits US products versus EU products.	Importers tend to buy small quantities in order to test market. US companies are usually not predisposed to sell small quantities.
The US food industry is able to respond to consumer demand promptly, regardless of the segment of products.	Consumers perceive US food products to be overly processed and relatively unhealthy.

## SECTION II. Road Map for Market Entry

### II.I. Entry Strategy

When approaching the Brazilian market, exporters should be aware that most imported foods and beverages are not price competitive compared to locally produced products. This is due to the low cost of locally produced goods, high import tariffs and exchange rate. The Brazilian food industry is well developed and the ever-expanding presence of major multinational companies contributes to making the sector very competitive. Products imported from Mercosul members (Argentina, Paraguay and Uruguay) enjoy duty-free status and Chilean products face a reduced duty rate. According to importers, the shelf price of imported goods is 2-5 times the FOB price at origin. As a result, US importers need to evaluate the extent to which their products can compete and maintain salability. Nonetheless, Brazilian high-end consumers are willing to pay more for certain products, and the market for luxury products has grown consistently.

Because approximately 80 percent of food and beverage distribution takes place through retail stores, developing a relationship with retailers will be more likely to guarantee visibility and country-wide coverage. The commercial power of the retail industry vis-à-vis food suppliers has steadily increased over the past fourteen years. Starting in 1994 with the implementation of the Real Plan, and through the rest of the last decade, imported products became a true alternative to domestically produced goods even though the percentage of imported products in retail sales is still small.

Retailers are well aware of their importance in the food distribution system and of their advantageous position in comparison with suppliers. While retailers exert considerable purchasing power and reach the overwhelming majority of Brazilian households, their purchasing of imported products can be characterized as follows: wide selection in small volumes. For retailers, foreign products may be imported directly from the processor or distributor or purchased locally from an importer or local distributor. US exporters should approach importers and/or retailers to further develop a market strategy.

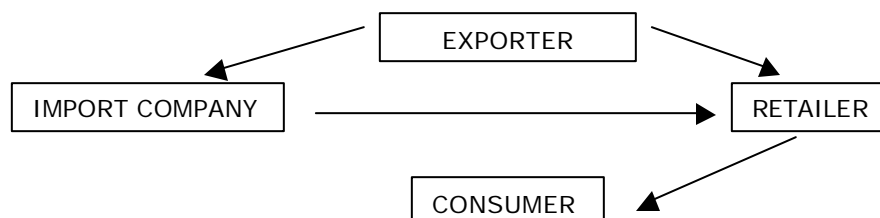
US exporters should always consider the local US Agricultural Trade Office (ATO) as an initial source of information and market guidance. The ATO maintains direct contact with the major players in order to facilitate market entry and is also able to provide assistance on Brazilian legislation and standards for imported goods. US companies can test market through ATO marketing activities and also profit from its market intelligence.

### II.II. Market Structure

Imports of foods, beverages, ingredients or consumer-ready products, may occur directly or indirectly. As per retail imports, volume is the determinant factor. If the volume to be

imported does not justify the operation, retailers will prefer to purchase imported items locally from importers/distributors. While avoiding the middleman is a general goal, it only happens if retailers are able to fill containers and keep overhead costs in check. Brazilian buyers are hesitant to purchase full containers of single products and, US suppliers are often unwilling to deal with small volumes. However, the most cost-effective option for importers and retailers when dealing with small volumes is often mixed containers. In the past year, the U.S. Agriculture Trade Office in Sao Paulo has noticed a significant increase in the demand for US products. The positive scenario had also expanded the base of importers to include medium-sized retailers, who have traditionally bought locally.

#### MARKET STRUCTURE FOR IMPORTED PRODUCTS



### II.III. Company Profiles

In 2007, Carrefour posted an exceptional performance, with 50 percent growth in gross sales. In 2006 the company was ranked 3<sup>rd</sup> among Brazilian retailers but due to its productivity and acquisitions in the past year, Carrefour climbed to first. In 2006, Carrefour sold R\$12.9 billion but in 2007 the acquisition of Atacadão added R\$4.9 billion in sales, contributing to group sales of R\$19.6 billion. Compared to Carrefour, Pao de Acucar posted more modest growth. In 2007 gross sales for this group increased 14 percent compared to the year before. Pao de Acucar, however, increased the number of its stores from 549 to 575, making Pao de Acucar the largest retail chain in terms of number of stores— with 65 stores more than Carrefour.

Wal Mart also posted strong growth in 2007 as its gross sales went up by 16.2 percent, from R\$12.9 billion to R\$15 billion. From 302 stores in 2006, the chain closed 2007 with 313, while Carrefour and Pao de Acucar added 109 stores and 65 stores, respectively. The other retailers ranked all recorded higher sales levels. Special attention must be brought to G.Barbosa and Prezunic. These two regional chains registered sales increases of 27.5 percent and 23.6 percent, respectively.

#### TOP 10 BRAZILIAN RETAILERS

COMPANY	OWNERSHIP	SALES (R\$ million)	Share (%)	N° STORES	LOCATION <sup>1</sup>	PURCHASING AGENT TYPE <sup>2</sup>
1-Carrefour (Carrefour, Carrefour Bairro, Atacadão, Dia%)	France	19,257.3	14.13	510	AM, CE, DF, ES, GO, MS, MG, PB, PR, PE, RJ, RN, RS, SP	LFP, DI, LI
2-Cia. Brasileira de Distribuicao (Pão de Açúcar, Extra, Extra Bairro, Extra-Eleto, Extra Fácil, Sendas/CompreBem, Assai)	Brazil/France	18,762.2	13.77	575	AL, BA, CE, DF, GO, MG, MS, PB, PE, PI, PR, RJ, RN, SE, SP	LFP, DI, LI
3-Wal-Mart	US	15,002.4	11.01	313	AL, BA, CE,	LFP, DI, LI

(Wal-Mart, Bom Preço, BIG)					ES, GO, MG, PB, PE, PI, PR, RJ, RN, RS, SC, SE, SP	
4-G. Barbosa (G. Barbosa, Via Box)	Chile	1,898.6	1.39	42	AL, BA, SE	LFP, DI, LI
5-Cia. Zaffari (Zaffari, Bourbon)	Brazil	1,607.3	1.18	27	RS, SP	LFP, DI, LI
<b>TOTAL (5)</b>		<b>56,527.8</b>	<b>41.47</b>	<b>1,467</b>		
<b>COMPANY</b>	<b>OWNERSHIP</b>	<b>SALES (R\$ million)</b>	<b>Share (%)</b>	<b>N° STORES</b>	<b>LOCATION<sup>1</sup></b>	<b>PURCHASING AGENT TYPE<sup>2</sup></b>
6-DMA Distribuidora (Epa, Mart Plus, Via Brasil)	Brazil	1,541.0	1.13	85	ES, MG	LFP, DI, LI
7-Irmaos Bretas	Brazil	1,537.5	1.13	51	GO, MG	LFP, LI
8-Prezunic	Brazil	1,476.3	1.08	28	RJ	LFP, DI, LI
9-A. Angeloni	Brazil	1,187.0	0.87	19	PR, SC	LFP, DI, LI
10-Irmaos Muffato	Brazil	1,148.0	0.84	21	PR, SP	LFP, DI, LI
<b>TOTAL (10)</b>		<b>63,417.7</b>	<b>46.5</b>	<b>1,671</b>		
<b>TOTAL SECTOR</b>		<b>136,300.0</b>	<b>100.00</b>	<b>74,602</b>		

Note <sup>1</sup>: AM (Amazonas), AL (Alagoas), BA (Bahia), CE (Ceará), DF (Distrito Federal), ES (Espírito Santo), GO (Goiás), MG (Minas Gerais), MS (Mato Grosso do Sul), PB (Paraíba), PE (Pernambuco), PI (Piauí), PR (Paraná), RJ (Rio de Janeiro), RN (Rio Grande do Norte), RS (Rio Grande do Sul), SC (Santa Catarina), SE (Sergipe), SP (São Paulo).

Note <sup>2</sup>: LFP (local food processors), DI (direct imports), LI (local importers).

Source: ABRAS

### SECTION III. Competition

In 2007 Brazil's imports of consumer-oriented food products stood at 2 billion dollars. Compared to 2006, imports of food and beverage items rose by 22 percent. Due to a favorable exchange rate (US\$1=R\$1.95, annual average) importers were more aggressive. Although Brazilian food importers are generally biased toward EU products, the U.S. Agriculture Trade Office in Sao Paulo noticed a significant increase in demand for US products during 2007 which continued during the first three quarters of 2008. US exports to Brazil increased by 22 percent. At the same time, imports of EU products registered a 32 percent increase compared to the previous year, boosting the EU market share by 1.8 points (to 23.5%).

#### CONSUMER-ORIENTED AGRICULTURAL TOTAL (Millions of US Dollars)

	2002	%	2003	%	2004	%	2005	%	2006	%	2007	%
World	1,110.3	100	994.9	100	1,122.1	100	1,374.1	100	1,647.0	100	2,005.6	100
Mercosul (4)	649.7	58.5	602.9	60.6	644.1	57.4	703.3	51.2	829.7	50.4	961.7	48.0
EU (15)	232.7	21.0	205.1	20.6	231.7	20.6	283.7	20.6	357.3	21.7	470.9	23.5
US	82.6	7.4	72.4	7.3	101.6	9.1	114.1	8.3	121.9	7.4	149.2	7.5
Others	145.2	13.1	114.5	11.5	144.6	12.9	273.1	19.9	337.9	20.5	423.5	21.1

Source: World Trade Data/Secretariat of Foreign Trade (Secex)

From January to August of 2008, imports of consumer-oriented products by Brazil increased 34 percent compared to the same period of 2007. However, the scenario for imported food items is suddenly uncertain. The financial crisis has already been felt in the imported foods segment. Import companies are being very cautious about volumes to be shipped into Brazil during the last quarter of the year. In the past weeks the exchange rate has oscillated significantly, from US\$1=R\$ 1.55 in August to US\$1=R\$2.50 in October, before falling again. Under these conditions it becomes extremely difficult to estimate final retail prices and product competitiveness; therefore import volumes are expected to decrease as buyers become hesitant about profitability.

#### IMPORTS FROM UNITED STATES BY PERIOD (Millions of US Dollars)

	January-December		January-August	
	2006	2007	2007	2008
Snack Foods	42.99	41.81	27.43	35.84
Breakfast cereals & Pancake	0.39	0.28	0.21	0.56
Red Meats, Fresh/Chilled/Frozen	11.43	8.26	6.23	4.04
Red Meats, Prepared/Preserved	0.29	0.17	0.14	0.13
Dairy Products	10.01	12.29	7.34	17.20
Eggs & Products	12.79	15.92	11.28	11.49
Fresh Fruit	6.33	11.91	1.58	3.80
Fresh Vegetables	0.10	0.34	0.20	0.31
Processed Fruit & Vegetables	45.17	47.05	30.71	41.73
Fruit & Vegetable Juices	44.97	45.41	29.61	34.08
Tree Nuts	4.28	4.79	1.60	6.04
Wine and Beer	0.58	0.69	0.42	0.68
Nursery Products	0.00	0.03	0.00	0.02
Pet Food (Dog & Cat Food)	17.73	29.00	18.09	15.10
Other Consumer Oriented	50.33	51.87	35.10	42.11
<b>Consumer-Oriented Total</b>	<b>121.871</b>	<b>149.19</b>	<b>88.85</b>	<b>121.34</b>

Source: World Trade Data/Secretariat of Foreign Trade (Secex)

## SECTION IV. Best Product Prospects

### IV.I. Products present in the market which have good sales potential

Importers are generally looking for well-known brands and high-end products. In addition Brazilian importers/distributors usually prefer products with six months shelf life or more. In addition to the product itself, packaging, status and level of innovation are important attributes. Products that combine these characteristics are more likely to successfully enter the market.

### IV.II. Products not present in significant quantities but which have good sales potential

Health foods, especially natural and organic products, have a limited presence in the Brazilian market. The Brazilian food industry has not directed consistent efforts to develop these segments, as the consumer base is restricted to a [quickly growing] slice of the Brazilian population. There are limited numbers of suppliers in the market for these products and consequently prices are high.

**IV.III. Products not present because they face significant barriers**

Brazilian legislation requires all food items to be approved by Ministry of Health (MS) or Ministry of Agriculture, Livestock, and Food Supply (MAPA) prior to shipment. Currently, poultry and beef imports are banned and considerable restrictions exist for products containing ingredients derived from biotech commodities.

**SECTION V. Post Contact and Further Information**

Please do not hesitate to contact the offices below for questions or comments regarding this report or require assistance to export processed food products into Brazil:

**U.S. Agricultural Trade Office (ATO)**

U.S. Consulate General  
Rua Henri Dunant, 700  
04709-110 Sao Paulo – SP  
Tel: (55 11) 5186-7400  
Fax: (55 11) 5186-7499  
E-mail: [atosaopaulo@usda.gov](mailto:atosaopaulo@usda.gov)  
[atobrazil@usdabrazil.org.br](mailto:atobrazil@usdabrazil.org.br)

**Office of Agricultural Affairs (OAA)**

U.S. Embassy  
Av. das Nacoes, quadra 801, lote 3  
70403-900 Brasilia - DF  
Tel: (55 61) 3312-7000  
Fax: (55 61) 3312-7659  
E-mail: [agbrasil@usda.gov](mailto:agbrasil@usda.gov)